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C O N F I D E N T I A L SECTION 01 OF 02 STATE 160243

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TAGS: [ECIN](#) [EINV](#) [ETRD](#) [EUN](#) [CH](#)

SUBJECT: TRANSATLANTIC ECONOMIC COUNCIL LUNCHEON
HIGHLIGHTS U.S.-EU COORDINATION ON CHINA AND SOVEREIGN
WEALTH FUNDS

REF: STATE 157018 (NOTAL)

Classified By: EB A/S DAN SULLIVAN

1.(U) Summary: The November 9 meeting of the Transatlantic Economic Council (TEC) concluded with a Cabinet-level luncheon at the State Department focusing on common concerns regarding sovereign wealth funds, national security, and economic relations with China. Both sides agreed that we must create a mechanism for closely coordinating our message to China to ensure it takes U.S. and EU concerns more seriously and plays more fairly, while at the same time continuing to grow. Lunch participants lauded the U.S.-EU investment dialogue launched by the TEC, noting that a coordinated strategy on sovereign wealth funds would help ensure a reasonable balance between security concerns and promoting foreign investment. EU participants included TEC co-chair and European Commission Vice President Guenter Verheugen, Commissioner for Trade Peter Mandelson, Commissioner for Internal Market and Services Charles McCreevy, Commissioner for Taxation and Customs Union Laszlo Kovacs, Commissioner for Consumer Affairs Meglena Kuneva, Portuguese Minister of Economy Manuel Pinho and German senior economic advisor Jens Weidmann. On the U.S. side, participants included TEC co-chair and NEC Chairman Al Hubbard, Secretaries Chao, Chertoff, Gutierrez, and Paulson, Acting Secretary Conner, USTR Schwab, EPA Administrator Johnson, NSC deputy Daniel Price, and U.S. Ambassador to the EU C. Boyden Gray. EEB Assistant Secretary Daniel Sullivan hosted. End Summary.

China -- United we stand, divided we fall:

2.(C) Mandelson laid out three priorities for China that closely mirror the U.S. agenda in the Strategic Economic Dialogue. He argued we should treat China &more normally,⁸ meaning making fewer allowances and pursuing stronger enforcement of WTO rules and other Chinese commitments. He called for closer U.S.-EU collaboration to align our policies, noting China's expertise in dividing and conquering. He said China must overcome a &governance deficit,⁸ but the best way to achieve this would be for the U.S. and EU to engage, rather than confront. Mandelson said the EU is pushing China on investment conditions, currency, climate, and product safety. U.S. participants agreed that we are far more successful with a multilateral approach to China, because China fears standing out. The U.S. side suggested the U.S. and EU compare points before the upcoming EU-China bilateral, the December U.S.-China Joint Commission on Commerce and Trade (JCCT), and the U.S.-China Strategic Economic Dialogue (SED).

TEC Drives Progress on Sovereign Wealth; National Security:

3.(C) Mandelson and U.S. participants praised the newly-launched U.S.-EU investment dialogue as a vital vehicle to discuss and coordinate sovereign wealth fund strategies, addressing both security concerns and the need to promote further investment. They agreed that, while wanting to encourage reciprocal openness to investment in third countries, the U.S. and EU must take a leadership role in welcoming investment even if other markets remain closed. Mandelson argued that sovereign wealth funds are not necessarily a bad thing, but that we need to ensure their transparency. He cautioned that governments on both sides of the Atlantic must be careful not to over-react or otherwise give the impression that we are afraid of foreign investment. He observed that both the U.S. and EU members already have mechanisms in place to ensure that foreign investments do not threaten national security. McCreevy added that the EU welcomes a G7/ multilateral approach to sovereign wealth funds, that the EC and member states are happy with the newly enacted EU oversight mechanism on foreign investment, and that a non-paper on proposed rules to implement this mechanism would be out before Christmas.

National Security Disagreements: Iran and Gazprom

4. (C) Verheugen countered that some industries were truly strategic, citing the importance of Iran to the German energy

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industry, &representing trillions of dollars with no question of bad intent.⁸ He said Gazprom's pricing system was a relic of the Soviet Union, as problems with Ukraine bore out. He urged caution against making strategic industries, a big issue, to prevent a backlash. Verheugen opined that if Germany were not active, China and India would fill the gap. He listed the truly strategic sectors as defense, telecom networks, steel, electricity, and food. The NSC warned that rather than debate this, the U.S. and EU must find a cooperative solution that does not require legislation.

5.(U) Co-chairs Verheugen and Hubbard agreed to formally adopt the TEC statement they had finalized the night before (please see <http://www.state.gov/p/eur/rt/eu/c12967.htm>). Verheugen offered to host the next (Spring 2008) meeting, noting that continued high-level participation would be the key to more successful outcomes.

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